HOUSING MARKET OUTLOOK

Kingston CMA

Canada Mortgage and Housing Corporation

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New Home Market

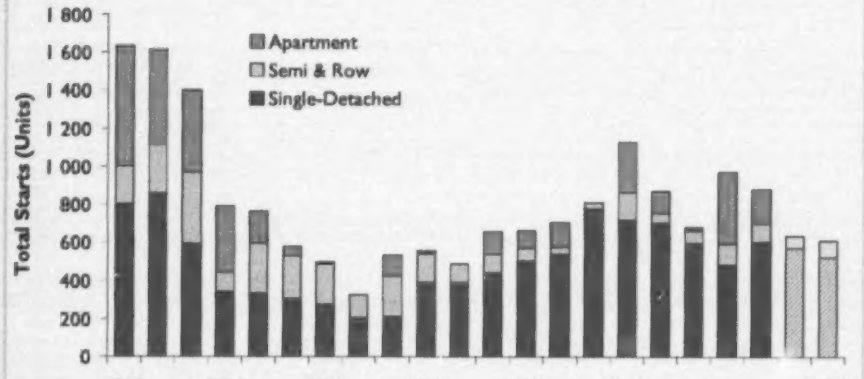
Single-Detached Starts Remain Resilient in 2008

Single-detached starts should remain relatively flat over the next two years as gains in Kingston City are expected to offset weaknesses in South Frontenac Township. Therefore, construction for this type of dwelling is forecast to reach 570 units in 2008, close to the 600 units recorded in 2007. Year-to-date single starts have exceeded last year's levels. But in the months ahead, construction activity will moderate amid growing concerns about the economic and job market conditions in Canada.

Next year, however, single-detached starts will ease further by nine per

Figure 1

Single-Detached Starts Remain Strong



Source: CMHC (Starts Survey); f = CMHC Forecast

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cent to 520 units, as builders react to rising new home inventories and sustained competition from the existing homes market. The recent surge in new listings provides more choice in the market-place and will snare many first-time home buyers away from the new homes market. Nevertheless, the high end and custom design single-detached homes will maintain market shares as some baby boomers look to build their dream homes. This will help sustain single starts in the coming years.

New Semi-Detached and Row Units Gaining Ground

While single-detached homes are most popular among home buyers in Kingston, many first-time buyers will more likely have to settle for semi-detached, since the average prices of new single-detached homes across Kingston appear beyond the reach of less affluent households. As a result, semi-detached starts are predicted to reach 40 units this year over the 16 units posted in 2007. In 2009, however, starts for this type of dwellings are anticipated to decline slightly as the economy slowly recovers.

Meanwhile, row starts will retreat to 25 units in 2008 before climbing to 60 units in 2009. In general, slow economic and job market activity will translate into a shift in consumer demand away from single detached homes to less expensive townhomes and semis.

Expect Low Apartment Starts to Pull Down Total Starts

New apartment starts are expected to fall this year and next. Construction has been inactive year-to-date as the market continues to absorb the high influx of new rental units that were started over the past two years. In addition, weak youth employment growth, low international migration combined with high vacancy rate point toward a decrease in new apartment starts in the next two years.

Although gradual and in line with demographic changes, the decline in apartment starts will prompt total housing starts to moderate from 880 units in 2007 to 635 in 2008 and further to 610 in 2009. In addition, negative net migration in the Kingston CMA is predicted as high youth unemployment encourages many young adults to leave the Kingston area for the bigger cities. According to its recent publication, Statistics Canada reported that 9.1 per cent and 8.6 per cent of Kingstonians left the Kingston CMA for Montreal and Edmonton respectively – between 2001 and 2006.

Resale Market

Resale Transactions to Mirror Record Set in 2006

Sales of existing homes through the Multiple Listing Service® (MLS) are forecast to ease by 3.9 per cent this year compared to last year's record level, and then ease an additional 0.8 per cent in 2009.

Despite the moderation in MLS sales, our resale forecast for the next two years suggest more activity than the level recorded in 2006 – which was considered a strong year for existing home market activity. In addition to healthy full-time employment growth, the strong real income gains – as measured by the average weekly earnings – will help sustain the resale market.

Figure 2

Relatively Healthy Resale Market Expected

Source: CREA (MLS®); f = CMHC forecast

More Balanced Market Conditions Will Slow Price Growth

There has been strong price growth in the resale market in recent years, especially during the 2003 to 2005 period when the market saw a double digit increase. With moderating sales activity coupled with an increasing supply of new listings, price increases will not be as brisk in 2009. However, average MLS price increase will remain strong at 4.6 per cent in 2008 before dropping to 1.9 per cent in 2009.

As a leading predictor of future average MLS price increases, the current sales-to-new listings ratio is pointing toward a more balanced market condition in the entire Kingston CMA. Since 2000 the sales-to-new listings ratio has been held firmly in the sellers' territory. However, toward the end of 2008 we anticipate new listings to reach a record high of 6985 units, pulling down the sales-to-new listings ratio to 0.51 from 0.56 in 2007.

A drop in the ratio generally means a slow average MLS price increase ahead – which is in conformity with our forecast for 2008 and 2009.

The Economy

Employment Growth Is Brighter in 2009

Employment growth in Kingston is forecast to slow to 0.6 per cent in 2008, as further manufacturing and accommodation job losses are combined with declining retail trade sector activity. However, the employment outlook is slightly brighter in 2009 for two main reasons. First, both the health care and public administration sectors will boost overall labour market activity and, second, the manufacturing sector will finally begin a gradual recovery due to strengthening U.S. dollar vis-à-vis the Canadian dollar. The number of people employed in 2009 is expected to increase by 0.9 per cent.

A diversified economy and the expected decline in the Canadian dollar will help protect Kingston from a deep economic slowdown. Continued economic growth will translate into job gains for Kingstonians and relatively low unemployment rate. Due to the aging population, a shortage of skilled labour in key industries will put upward pressure on wages. The resulting wage gains coupled with declining mortgage rates should have a positive impact on the demand for both existing and new homes.

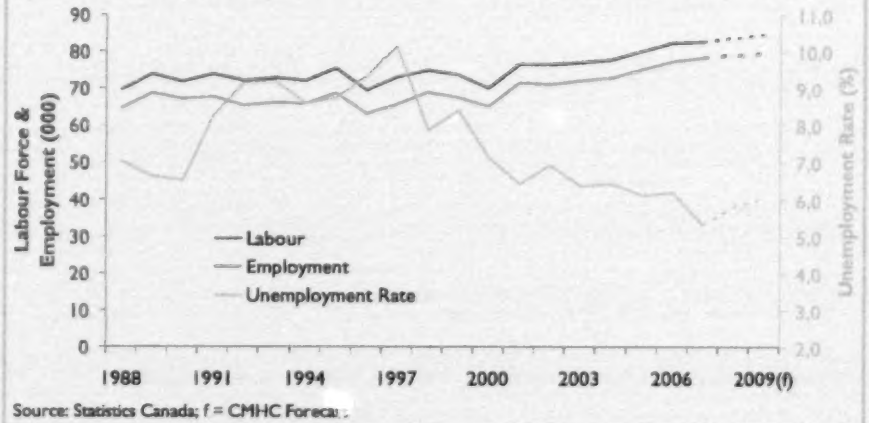
Construction Sector Growth Solid

Construction sector employment is expected to finish 2008 with positive job gains of 13 per cent. However, growth will be held back in 2009 almost entirely from the residential sector, as the housing market cools off.

Moreover, non-residential investment remains strong due in part to several ongoing projects. For instance, the phase 1 of the $230 million Queen's Centre construction is still underway and is scheduled for completion in September of 2009. Notwithstanding the gains from non-residential activity, the construction sector suffered a setback as a result of the decision to postpone the opening of the Ethanol plant in Kingston later this year. The West Kingston Ethanol plant is not anticipated to open but until the spring of 2010.

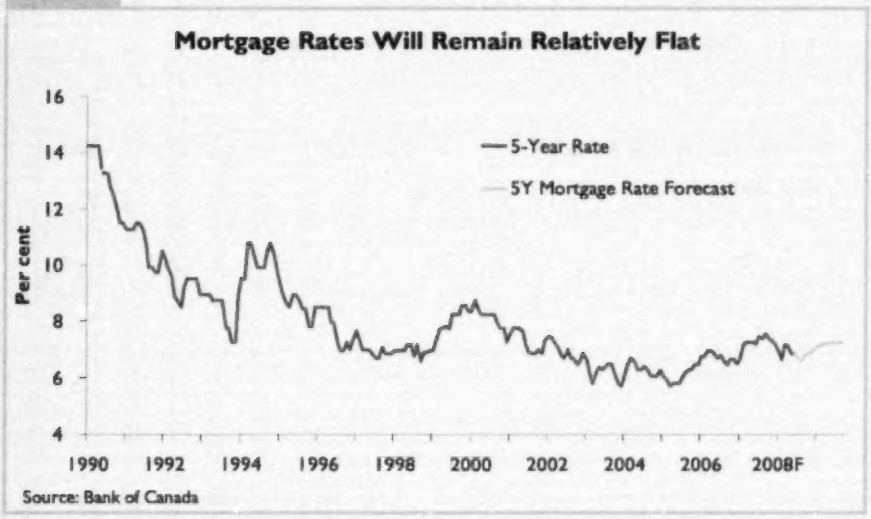
Figure 3

Kingston's Unemployment Rate Remains Low



Source: Statistics Canada; f = CMHC Forecast

Figure 4



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Forecast Summary Kingston CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	3,464	3,517	3,725	3,580	-3.9	3,550	-0.8
MLS® New Listings	5,775	6,314	6,716	6,985	4.0	7,100	1.6
MLS® Average Price ($)	195,757	212,157	222,300	232,500	4.6	237,000	1.9
New Home Market							
Starts:							
Single-Detached	598	481	600	570	-5.0	520	-8.8
Multiples	85	487	280	65	-76.8	90	38.5
Starts - Total	683	968	880	635	-27.8	610	-3.9
Average Price ($):							
Single-Detached	258,455	274,964	266,145	256,000	-3.8	263,000	2.7
Median Price ($):							
Single-Detached	256,700	274,000	260,000	252,700	-2.8	261,800	3.6
Rental Market							
October Vacancy Rate (%)	2.4	2.1	3.2	3.0	-0.2	2.9	-0.1
Two-bedroom Average Rent (October) ($)	807	841	856	873	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	75,100	77,300	78,300	78,750	0.6	79,450	0.9
Employment Growth (%)	3.2	2.9	1.3	0.6	0.7	0.9	0.3
Unemployment rate (%)	6.1	6.2	5.3	5.8	0.5	6.0	0.2
Net Migration [1]	-147	-715	0	-529	-	-558	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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